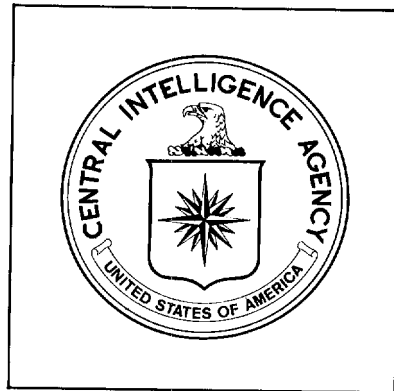


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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

CONTENTS

West Germans Apparently Indecisive on Arms Export Policy	1
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25X6

European Court Advises that the EC Has Competence over Export Credit Matters	5
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November 18, 1975

SECRET

SECRET

25X1A

West Germans Apparently Indecisive on Arms Export Policy

The issue of relaxing hitherto restrictive West German regulations on exports of military equipment remains topical, but Bonn apparently has not yet made a decision to change its policy.

Last week, delegates to the Social Democratic Party's convention voted against easing restrictions. The vote, according to one newspaper, went against the recommendation of Chancellor Helmut Schmidt. He probably preferred that the issue not be raised to avoid restrictions on future options.

West Germany has long maintained a policy that arms should not be sold to "areas of tension." Since 1971, West German arms exports have been limited essentially to other NATO countries, Japan, Australia, New Zealand, and some neutrals.

In mid-September, however, Siegfried Mann, a state secretary in the ministry of defense, announced that the government intended to review its policy with a view toward easing it. The thrust of Mann's presentation was that various political and economic pressures have caused the government to reconsider its position. He cited specifically the slumping economy, and suggested that greater arms exports would lead to more jobs. In addition, countries with which West Germany co-produces weapons--France in particular--have pressured Bonn to grant export licenses for certain pieces of military hardware. Mann argued further that weapons prices will decrease as production increases, and the Bundeswehr therefore could reap a price advantage from increased arms exports.

November 18, 1975

SECRET

SECRET

2 | Mann said that a meeting of the West German Security Council--composed of the Chancellor and foreign, defense, interior, and economic and finance ministers--would make the governmental review on September 22.

1, 2, 3 | That meeting, however, was postponed and probably has never taken place. [REDACTED] Foreign Minister Genscher argued successfully that the government should delay any decisions on the matter. Genscher and others in the government presumably believe that the political problems that could result if Bonn permitted the sale of arms to the Middle East, for example, would outweigh any economic advantages.

2, 4 | Defense Minister Leber may also be opposed to changing Bonn's policy. In a recent interview in the newsmagazine Der Spiegel, Leber stated that West Germany will not become a "weapons forge."

2, 4 | Chancellor Schmidt's current views are not known. When he was defense minister, however, Schmidt also argued against changing Bonn's policy.

3, 4 | Apparently unable to make a decision on this matter, the West Germans, on Genscher's recommendation, created a committee of experts to examine under what conditions Bonn should change its policy. As of early October, the committee was unable to agree, for example, on how to define an "area of tension." The experts also were in a quandary about how West Germany could permit the sale of tanks, say to Brazil but not to Iran, or to the Persian Gulf states but not Saudi Arabia.

4 | Their problems suggest that if Bonn changes its policy on arms exports, it will be done only after much soul searching. (SECRET NOFORN/ORCON)

November 18, 1975

SECRET

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European Court Advises that the EC Has Competence
over Export Credit Matters

The European Court has advised the EC Commission that the Community--and not member states--has exclusive jurisdiction in the area of export credit negotiations and legislation.

The Court's opinion may be used by the Commission as a test case to assert EC prerogatives. France, and to a lesser extent Germany and the UK, have always contested the EC's competence in this vital trade area.

If the Commission succeeds in winning acceptance of an interpretation of the Court opinion that extends Community competence to all areas of export finance, it would have a considerable impact on the conduct of international negotiations in this field. The impact of the Court's decision could be felt in negotiations between the EC, the US and Japan on the proposed "gentleman's agreement" that would establish guidelines for granting trade credits to importers. These talks have been deadlocked since July due to French insistence on more liberal credit terms.

The EC Commission may now seek a mandate from the Council to represent the Community in these negotiations; this would almost surely provoke a political contest within the Community that may isolate France further but would also prevent any early conclusion of the gentlemen's agreement. (CONFIDENTIAL NOFORN)

25X1A

November 18, 1975

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